Government of Newfoundland and Labrador
Department of Finance

Newfoundland and Labrador Municipal Financing Corporation

Annual Report

March 31, 2013

Newfoundland and Labrador Municipal Financing Corporation
Annual Report
March 31, 2013

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September 27, 2013

Honourable Jerome Kennedy, Q.C
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
A1B 4J6

Dear Minister Kennedy:

In accordance with Section 13 of the *Municipal Financing Corporation Act*, section 9 of the *Transparency and Accountability Act* and on behalf of the Board of Directors, it is my pleasure to submit the annual report of the Newfoundland and Labrador Municipal Financing Corporation (NMFC) summarizing the Corporation's activities for the fiscal year ended March 31, 2013.

NMFC was established to consolidate the long-term borrowing programs of all municipalities in one central Crown agency. The proceeds of these borrowings were then used to provide long-term financing to meet the capital requirements of municipalities. In 2005-06, Government decided to no longer finance its portion of municipal capital projects through NMFC, and as most municipalities finance their share independently, through financial institutions, NMFC is in the process of winding up its operations. This report outlines the progress made in 2012-13 on the collection of outstanding receivables and payment of outstanding debenture debt.

The Board of Directors has approved the financial statements and information contained in this annual report, and the Board is accountable for the results reported herein.

Sincerely,

Donna Brewer

Donna Brewer
Chair of the Board

CORPORATE OVERVIEW

Authority

The Newfoundland and Labrador Municipal Financing Corporation (NMFC) was established in 1964 and operates pursuant to the provisions of the *Municipal Financing Corporation Act*. NMFC operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Province's annual financial statements.

Purpose

The Corporation was established to consolidate the long-term borrowing programs of all municipalities in one central Crown agency.

The vision of the Department of Finance is of a vibrant and self-reliant economy and prosperous people. This is supported by NMFC. The mission of the Department of Finance is to support Government in its commitment to fiscal sustainability and a healthy economy for the Province. By March 31, 2014, NMFC will have continued to follow the mission of the department by supporting the Province's fiscal management through the collection of outstanding loans receivable and the repayment of outstanding debenture debt.

Board Representation and Accountability

The affairs of NMFC are overseen by a Board of Directors appointed by the Lieutenant Governor in Council. All Board members are employees of the Province with the position of Chair held by the Deputy Minister of Finance. The Board meets no less often than annually and approves its Annual Financial Statements and Annual Report, both of which are then tabled in the House of Assembly by the Minister of Finance. The members of the Board as at March 31 and their positions were as follows:

Ms. Laurie Skinner (Chair)
Deputy Minister of Finance

Ms. Julia Mullaley
Deputy Minister of Municipal Affairs

Mr. Paul Myrden (Secretary)
Director of Debt Management
Department of Finance

Mr. Brent Meade
Deputy Minister of Innovation, Business and Rural Development

Mr. Peter Au
Assistant Deputy Minister of Taxation and Fiscal Policy
Department of Finance

Operational and Corporate Information

NMFC has no direct employees as the day-to-day affairs are administered by employees of the Department of Finance. On a quarterly basis, the Province invoices NMFC for its share of the salary costs of the employees who are involved in its administration. Contact information is as follows:

Mailing Address:

Newfoundland and Labrador
Municipal Financing Corporation
c/o Department of Finance
Confederation Building
East Block, Main Floor
P. O. Box 8700
St. John's, NL
A1B 4J6

Office Location:

Debt Management Division
Department of Finance
Confederation Building
East Block, Main Floor
Telephone: (709)-729-6686
Fax: (709) 729-2070

Departmental Website:

www.gov.nl.ca/fin

SHARED COMMITMENTS

An important issue for the Corporation, and the Province as guarantor of the Corporation's debenture debt, is the level of municipal loan arrears. Loan arrears at March 31, 2013 amounted to $3.3 million (2012 - $3.9 million). Historically, the Corporation collected a significant amount of arrears through the interception of municipal operating grants and from allocations from a Reserve Fund established with the Corporation and funded by the Province to assist towns most in need. Subject to the approval of the Minister of Finance, the Fund was periodically allocated as the Department of Municipal Affairs (MA) completed negotiations with town councils to determine the eligible levels of financial assistance towards arrears.

Given that NMFC is no longer borrowing and lending the proceeds to municipalities, it does not have sufficient leverage with individual municipalities that can be used to collect outstanding amounts receivable. Consequently, the Corporation is reliant on MA to take the necessary action to address outstanding arrears.

During the 2009-10 year, the Corporation reached an agreement with MA on a strategy to reduce and ultimately eliminate arrears on municipal loans. The components of this strategy were as follows:

- MA would make a lump sum payment of $4 million to the Corporation. This was received in November 2009.
- This $4 million would be combined with existing Debt Relief funding of $1.77 million for a total of $5.77 million available to be applied against arrears.
- The Corporation would discontinue the application of late fees on accounts in arrears effective November 1, 2009.
- MA would negotiate repayment arrangements with communities in arrears and provide the Corporation with periodic direction on the application of the $5.77 million to individual accounts in arrears.
- MA would monitor active loan payments and implement additional collection efforts as required.

In addition to the agreed payment of $4 million, a further $1 million was paid by MA to the Corporation in March, 2010 for future application against arrears bringing the total available to $6.77 million.

From April 1, 2010 to March 31, 2012, a total of $2,189,269 was allocated from the Reserve Fund and applied to municipalities in arrears. During 2012-13, an additional $328,593 in late fees relating to six municipalities was allocated from the Reserve Fund and applied to their arrears, leaving a balance in the Fund of $4.25 million to be applied in future years.

HIGHLIGHTS AND ACCOMPLISHMENTS

Government has decided that, going forward, the Corporation will not be used as a vehicle to finance the Province's share of the cost of municipal capital projects. Since most of the Province's municipalities already arrange long-term financing from the banks and other financial institutions, the Corporation is in the process of winding up operations as it collects the loan portfolio and retires its debenture debt and this process continued during the fiscal year.

Collection of outstanding loans receivable amounted to $16.6 million as the Corporation's loan portfolio was reduced from $68.3 million to $51.7 million. During the same period, outstanding accounts receivable, consisting of arrears on loan payments, decreased from $3.9 million to $3.3 million.

The net debenture debt of the Corporation decreased from $55.3 million to $35.4 million due to loan repayments of $19.9 million during the year.

REPORT ON PERFORMANCE

Progress on Strategic Priorities

As a result of a Government policy decision, NMFC discontinued its capital markets borrowing program several years ago with any subsequent municipal requirements to be met through the annual budgetary process. Consequently, NMFC is currently in the process of gradually winding down its operations through the collection of its outstanding loans receivable and retirement of its remaining debenture debt as it matures. This activity was the focus of NMFC's 2011-14 Activity Plan. As detailed below, NMFC has met its collection and repayment objectives for 2012-13.

Objective:

By March 31, 2013, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with the schedule of planned payments and collections for the fiscal year 2012-13.

Objective for Fiscal Year	Debt Maturities ($ thousands)	Loan Collections ($ thousands)
2012-13	$ 19,816	$ 16,602

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators (amounts in thousands):

- Net outstanding loans to municipalities reduced by $16,602.
- Net outstanding debenture debt reduced by $19,816

Results of 2012-13 Objective (amounts in thousands):

- Net outstanding loans to municipalities reduced by $16,590
- Net outstanding debenture debt reduced by $19,816

Variance of 2012-13 Objective:

- The amount collected on loans to municipalities was less than forecast as a result of early payouts on loans in previous fiscal years.

Objective – 2013-14:

By March 31, 2014, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with the schedule of planned payments and collections for the fiscal year 2013-14.

Objective for Fiscal Year	Debt Maturities ($ thousands)	Loan Collections ($ thousands)
2013-14	$ 9,816	$14,168

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators (amounts in thousands):

- Net outstanding loans to municipalities reduced by $14,168
- Net outstanding debenture debt reduced by $9,816.

OPPORTUNITIES AND CHALLENGES AHEAD

The major challenge for the upcoming year will be the continuing implementation of the strategy agreed to with MA in 2009-10 with respect to outstanding municipal arrears as detailed in the Shared Commitments section.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The financial statements of the Newfoundland and Labrador Municipal Financing Corporation are the responsibility of management and have been prepared in accordance with Canadian public sector accounting principles. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which the financial statements were prepared.

The Auditor General of Newfoundland and Labrador, appointed as the external auditor under the *Municipal Financing Corporation Act*, performed an audit on the financial statements in accordance with Canadian generally accepted auditing standards. The Auditor's Report attached to the financial statements outlines the scope of the examination and contains the Auditor General's opinion on the Corporation's financial statements.

AUDITOR'S REPORT & AUDITED FINANCIAL STATEMENTS

The audited Financial Statements are attached.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2013

Office of the Auditor General

Management's Report

Management's Responsibility for the Newfoundland and Labrador Municipal Financing Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Municipal Financing Corporation.

On behalf of the Newfoundland and Labrador Municipal Financing Corporation.

Donna Brewer, CA
Chairperson

Paul Myrden, CA
Director, Debt Management

August 19, 2013

OFFICE OF THE AUDITOR GENERAL
St. John's, Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador Municipal
Financing Corporation
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Newfoundland and Labrador Municipal Financing Corporation which comprise the statement of financial position as at March 31, 2013, the statements of operations and accumulated surplus, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

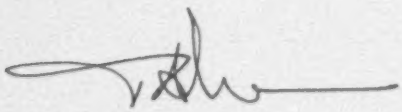
...2

Independent Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Newfoundland and Labrador Municipal Financing Corporation as at March 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



TERRY PADDON, CA
Auditor General

August 19, 2013
St. John's, Newfoundland and Labrador

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF FINANCIAL POSITION
As at March 31

	2013	2012
	(000's)	(000's)
FINANCIAL ASSETS		
Portfolio investments (Note 4)	$ 227	$ 575
Accounts receivable	3,287	3,913
Accrued interest receivable	222	379
Loans receivable (Note 5)	51,689	68,279
	55,425	73,146
LIABILITIES		
Bank indebtedness	1,453	373
Accounts payable and accrued liabilities	11	47
Accrued interest payable	126	205
Debenture debt (Note 6)	35,446	55,262
Reserve fund (Note 7)	4,253	4,581
	41,289	60,468
Net financial assets	14,136	12,678
NON-FINANCIAL ASSETS		
Deferred charges (Note 8)	59	88
Accumulated surplus	$ 14,195	$ 12,766

The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board of Directors:

Chairperson **Director**

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
For the Year Ended March 31

	2013 Budget	2013 Actual	2012 Actual
	(000's) (Note 11)	(000's)	(000's)
REVENUES			
Interest on loans to municipal corporations	$ 4,406	$ 4,406	$ 5,705
Interest on portfolio investments	56	62	89
Prepayment penalties	-	-	6
	4,462	4,468	5,800
EXPENSES			
Administrative and miscellaneous	112	105	112
Amortization of deferred charges:			
Issue expenses on debenture debt	21	21	35
Premiums and discounts on debenture debt	8	8	13
Interest on long-term debt	2,905	2,905	4,045
	3,046	3,039	4,205
Annual surplus	1,416	1,429	1,595
Accumulated surplus, beginning of year	12,766	12,766	11,171
Accumulated surplus, end of year	$ 14,182	$ 14,195	$ 12,766

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
For the Year Ended March 31

	2013 Budget	2013 Actual	2012 Actual
	(000's) (Note 11)	**(000's)**	(000's)
Annual surplus	**$ 1,416**	**$ 1,429**	$ 1,595
Use of deferred charges	**29**	**29**	48
Increase in net financial assets	**1,445**	**1,458**	1,643
Net financial assets, beginning of year	**12,678**	**12,678**	11,035
Net financial assets, end of year	**$ 14,123**	**$ 14,136**	$ 12,678

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION
STATEMENT OF CASH FLOWS
For the Year Ended March 31

	2013	2012
	(000's)	(000's)
Operating transactions		
Annual surplus	$ 1,429	$ 1,595
Adjustment for non-cash items		
Accrued interest income on coupons	(9)	(24)
Amortization of issue expenses on debenture debt	21	35
Amortization of premiums and discounts on debenture debt	8	13
	1,449	1,619
Change in non-cash working capital	668	606
Cash provided from operating transactions	2,117	2,225
Investing transactions		
Investment - coupons redeemed	357	603
Loan payments received from municipal corporations	16,590	17,944
Cash provided from investing transactions	16,947	18,547
Financing transactions		
Retirement of debenture debt	$ (19,816)	$ (25,116)
Reserve fund allocations made	(328)	(146)
Cash applied to financing transactions	(20,144)	(25,262)
Decrease in cash/increase in bank indebtedness	(1,080)	(4,490)
Cash and cash equivalents (bank indebtedness), beginning of year	(373)	4,117
Bank indebtedness, end of year	$ (1,453)	$ (373)

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

The Newfoundland and Labrador Municipal Financing Corporation (the Corporation) is established under the *Municipal Financing Corporation Act*. The purpose of the Corporation is to provide long-term financing for the capital requirements of municipal corporations by the issuance of its securities, and relending the funds to municipal corporations. The Corporation's affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. All board members are full-time employees of the Province of Newfoundland and Labrador (the Province).

The Corporation is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Corporation is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Corporation does not prepare a statement of remeasurement gains and losses as the Corporation does not enter into relevant transactions or circumstances that are being addressed by this statement. Outlined below are the significant accounting policies followed.

(b) Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of portfolio investments, accounts receivable, accrued interest receivable, loans receivable, bank indebtedness, accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include accounts receivable, accrued interest receivable, and loans receivable. Portfolio investments are measured at amortized cost as disclosed in note 4. Financial liabilities measured at cost include bank indebtedness, accounts payable and accrued liabilities and accrued interest payable. Debenture debt is measured at amortized cost as disclosed in note 6.

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of portfolio investments, accounts receivable, accrued interest receivable, bank indebtedness, accounts payable and accrued liabilities and accrued interest payable approximate current fair value due to their nature and/or the short-term maturity associated with these instruments. The carrying value of loans receivable and debenture debt is considered to approximate market value.

Interest attributable to financial instruments is reported in the statement of operations and accumulated surplus.

(c) Bank indebtedness

Bank indebtedness includes draw downs on the Corporation's operating credit facility, net of cash in bank.

(d) Premiums, discounts and issue expenses on debenture debt

Premiums, discounts and issue expenses are deferred and amortized on a straight-line basis over the life of the debenture issue to which they relate. In the case of the early retirement of debenture debt, a proportionate amount of the deferred balance is included with the gain or loss in the determination of net income for the period.

(e) Portfolio investments

Portfolio investments include Government of Canada coupons recorded at amortized cost.

(f) Loans receivable

The Corporation records loans receivable at amortized cost. Options exist for the recovery from the Province of any defaults by municipal corporations and as such no allowance for doubtful accounts has been provided. Interest is accrued on loans receivable to the extent it is deemed collectible.

(g) Accounts receivable

Accounts receivable consists of arrears (principal and interest) on loans receivable along with interest charged on the arrears. The Corporation ceased charging interest on arrears in November 2009.

2. Summary of significant accounting policies (cont.)

(h) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Interest income is accounted for using the effective interest method for interest on portfolio investments and interest on loans to municipal corporations receivable. Recognition of interest is in accordance with the terms of the original loan agreement.

(i) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

The Corporation is administered by the Department of Finance. Expenses related to salaries are paid directly by the Department and reimbursed by the Corporation and reflected in these financial statements.

(j) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include collectability for the loans.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

3. Accounting pronouncements

In March 2011, the PSAB approved new Section PS 3450, *Financial Instruments*, Section PS 2601, *Foreign Currency Translation* to replace current Section PS 2600, *Foreign Currency Translation* and Section PS 1201, *Financial Statement Presentation* to replace current Section PS 1200, *Financial Statement Presentation*. In addition, in March 2012, the PSAB approved Section PS 3041, *Portfolio Investments*, to replace Section PS 3040, *Portfolio Investments*. Government organizations are required to adopt all four sections in the same year. The four sections are effective for fiscal years beginning on or after April 1, 2012, for government organizations but earlier adoption is permitted. As a result of adopting these sections during the current year, the Corporation reclassified the presentation of its portfolio investments and provided additional disclosures related to financial instruments and financial risk management.

In December 2010, the PSAB amended Section PS 3410, *Government Transfers*. The main changes pertain to recognition criteria for government transfers, affecting how the Corporation accounts for such transfers. These amendments are effective for fiscal years beginning on or after April 1, 2012, but earlier adoption is encouraged. The adoption of this standard during the current year had no significant impact on the Corporation's financial statements.

4. Portfolio investments

Portfolio investments consist of 15 Government of Canada coupons that were purchased between August 18, 1998 and June 10, 2005, and mature between June 1, 2013 and December 1, 2016. Settlement values of these securities ranged from $889 to $12,902 with a total cost of $118,984 (2012 - $312,997), while maturity values range from $1,992 to $23,181 and have a total maturity value of $233,961. The portfolio investments are valued at amortized cost as follows:

	2013 (000's)	2012 (000's)
Portfolio investments - coupons at cost	$ 119	$ 313
Amortization of discount on portfolio investments	108	262
	$ 227	$ 575

5. Loans receivable

As at March 31, 2013, loans receivable from municipal corporations were $51,688,972 (2012 - $68,279,518). Interest rates range from 6.375% to 12.000%.

Loans to municipal corporations are made on the security of their debentures. Options exist for the recovery from the Province of any defaults by municipal corporations. Therefore, no allowance for doubtful accounts has been provided.

5. Loans receivable (cont.)

Principal payments receivable are as follows:

Year	Amount (000's)
2014	$ 14,155
2015	11,630
2016	9,297
2017	6,980
2018	4,620
Thereafter	5,007
	$ 51,689

6. Debenture debt

The Corporation's debenture debt is unconditionally and fully guaranteed as to principal and interest by the Province. Details of debt outstanding are as follows:

Series	Remaining Term	Interest Rate %	March 31 2013 (000's)	March 31 2012 (000's)	
MFC-38	Jun 1, 2013	6.000	$ 1,250	$ 2,500	(a)
MFC-39	Dec 16, 2013	6.125	1,000	2,000	(b)
MFC-40	Dec 14, 2013-14	6.850	2,000	3,000	(c)
MFC-43	Sep 20, 2013-16	6.250 - 6.500	8,000	10,000	(d)
MFC-44	Mar 15, 2014-17	6.000 - 6.125	4,000	5,000	(e)
MFC-45			-	10,000	
MFC-47	Mar 17, 2014-19	4.900 - 5.200	7,596	8,862	(f)
MFC-48	Mar 29, 2014-20	4.850 - 5.200	11,600	13,900	(g)
Total			$ 35,446	$ 55,262	

(a) MFC-38: On June 1, 2013, the Corporation is to redeem $1,250,000.

(b) MFC-39: On December 16, 2013, the Corporation is to redeem $1,000,000.

(c) MFC-40: On December 14 of each year, the Corporation is to redeem $1,000,000 in the years 2013 to 2014 inclusive.

(d) MFC-43: On September 20 of each year, the Corporation is to redeem $2,000,000 in the years 2013 to 2016 inclusive.

6. Debenture debt (cont.)

(e) MFC-44: On March 15 of each year, the Corporation is to redeem $1,000,000 in the years 2014 to 2017 inclusive.

(f) MFC-47: On March 17 of each year, the Corporation is to redeem $1,266,000 in the years 2014 to 2019 inclusive.

(g) MFC-48: On March 29 of each year, the Corporation is to redeem $2,300,000 in the years 2014 to 2015 inclusive and $1,400,000 in the years 2016 to 2020 inclusive.

Estimated debenture maturities are as follows:

Year Ending March 31	Debenture Maturities (000's)
2014	$ 9,816
2015	7,566
2016	5,666
2017	5,666
2018	2,666
Thereafter	4,066
	$ 35,446

7. Reserve fund

The Province has historically funded a reserve fund established to mitigate arrears with respect to municipal loans. The reserve fund is allocated as the Department of Municipal Affairs concludes negotiations with various municipal corporations with respect to restructuring debt due to the Corporation.

The year end reserve fund balance is as follows:

	2013 (000's)	2012 (000's)
Reserve fund, beginning of year	**$ 4,581**	$ 4,727
Less: funds allocated during year	**(328)**	(146)
Reserve fund, end of year	**$ 4,253**	$ 4,581

8. Deferred charges

	2013 (000's)	2012 (000's)
Issues expenses on debenture debt	$ 41	$ 62
Premiums and discounts on debenture debt	18	26
	$ 59	$ 88

9. Financial risk management

The Corporation recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to accounts receivable, accrued interest receivable and loans receivable. The Corporation's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Corporation is not exposed to significant credit risk with portfolio investments or accrued interest receivable because of their nature.

The Corporation is also not exposed to significant credit risk with accounts receivable (arrears on loans receivable) and loans receivable since options exist for the recovery from the Province of any defaults by municipal corporations.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation's exposure to liquidity risk relates mainly to its bank indebtedness, accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities. Also, the Corporation's debenture debt is long-term with fixed repayment terms. In addition, the Corporation has access to an operating credit facility which allows draw downs to a maximum of $5,000,000. As at March 31, 2013, the Corporation had drawn down $3,199,337 on its operating credit facility.

9. Financial risk management (cont.)

Market risk

Market risk is the risk that the fair value of expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other risk. The Corporation is not exposed to significant foreign exchange or other risk. In addition, the Corporation is not exposed to significant interest rate risk as its loans and debenture debt are provided at fixed interest rates.

10. Related party transactions

The Corporation is administered by employees of the Department of Finance. The salary costs of $70,566 (2012 - $70,690) for these employees are paid by the Department of Finance, reimbursed by the Corporation, and are reflected in these financial statements.

11. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the House of Assembly of the Province of Newfoundland and Labrador.

12. Non-financial assets

The recognition and measurement of non-financial assets is based on their service potential. These assets will not provide resources to discharge liabilities of the Corporation. For non-financial assets, the future economic benefit consists of their capacity to render service to further the Corporation's objectives.

13. Planned wind down of operations

The Province of Newfoundland and Labrador has decided that it will no longer refinance its portion of completed municipal capital projects through the Corporation. As a result, the Corporation will be winding up its operations over the coming years as it collects its loans receivable and repays its debenture debt.

14. Comparative figures

Certain comparative figures have been reclassified to conform to the current year's presentation.